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Oilseeds and Products

Annual

2004

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Report Highlights:

Copra meal and coconut oil (CNO) production will increase through MY04/05 as Philippine copra production improves. No copra exports are expected during the period, however, while copra meal exports will remain flat. CNO exports are expected to decline slightly in MY03/04 but are likely to increase in MY04/05 due to lower tariffs on CNO exports to the EU. For soybeans, 2004 imports will contract from last year's level due to tight global supplies but are expected to increase next year. Soybean meal (SBM) imports are expected to increase through 2005 due to strong feed demand, while fishmeal imports are likely to contract during the period. Higher local CNO consumption is expected in MY03/04 as soybean oil imports decline, but are likely to increase in 2005 as global supply normalizes.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
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[RP]

Executive Summary

Coconut trees have recovered from the stress brought about by two consecutive years of heavy nut-bearing (CY2000 and CY2001), and copra production in MY03/04 will exceed the previous year's output. Copra production through MY04/05 will continue to increase compared to the MY03/04 level, and crush consumption will correspondingly increase during the period. Copra meal and coconut oil (CNO) output during the period are expected to increase.

Adequate copra meal and CNO supply and high vegetable oil prices in MY03/04, are expected to enhance increased local consumption of both products during the year. Copra meal and CNO consumption are likely to continue increasing in MY04/05 due to the projected improvement of the Philippine economy and the rapidly expanding Philippine population (2.36 annual growth rate).

Copra meal exports are projected to remain flat through MY04/05 as the EU, based on stricter standards set by the Codex Alimentarius Commission, imposed trade restrictions on Philippine copra meal exports last year. Copra meal exports would have declined further during the period had it not been for increased purchases by other buyers outside the EU. The GRP is expected to pursue talks with the EU to resolve this issue.

CNO exports in MY03/04, on the other hand, are projected to decline from the MY02/03 level as CNO exports to the EU are also expected to face trade restrictions as a result of food safety concerns. Exports, however, are predicted to recover and increase in MY04/05 as a result of the country's inclusion in the EU's Generalized System of Preferences as well as the potential for CNO exports to China.

Despite an aggressive soybean production plan, soybean output is expected to remain stagnant through 2005. Soybean crush, therefore, will still utilize imported beans. High bean prices and the renewed weakness of the Peso in 2004, will likely result in the decline of soybean imports this year from the 2003 level although soybean crush during the year is expected to increase due to strong feed demand. Soybean imports and consequently soybean crush in 2005 are likely to grow from 2004 as global bean supplies normalize. Soybean meal (SBM) and soybean oil production in 2004, therefore, are expected to increase through 2005 from the 2003 level.

The Philippine feedmilling industry will continue growing through 2005 as the local livestock, poultry and aquaculture industries continue to expand. The decline in SBM imports in 2004 from the previous year's level will be compensated for by a modest increase in SBM production, making possible higher SBM consumption during the year. Consumption in 2005 will likely surpass its 2004 level as SBM imports are expected to surge as the shift in consumption away from animal proteins to vegetable oil meals accelerates. The shift, which started in 2003, will result in flat fishmeal production through 2005 as well as contraction in fishmeal imports and consumption during the period.

Production, Oilseed

Copra production in MY02/03 was adjusted upwards as coconut trees began recovering from the stress brought about by two consecutive years of heavy nut-bearing (CY2000 and CY2001). Post expects Philippine coconut production to further increase in MY03/04. On a calendar year basis, both the Philippine Coconut Authority (PCA) and the United Coconut Associations of the Philippines, Inc. (UCAP) estimate coconut output in 2004 to reach around 2.4 MMT. Post's estimate for MY03/04 is lower because, unlike the PCA's or the UCAP's

forecast, Post does not take into account other coconut products such as desiccated coconuts or foodnuts consumed directly for food. Copra production the following year (MY04/05) is likely to continue increasing.

Copra quality problems, however have surfaced as major buyers of copra meal have complained of the high aflatoxin content of exported Philippine copra meal. Aflatoxin levels rise due to improper drying of copra and is claimed to be carcinogenic. Most coconut farmers still practice crude copra-drying methods such as sun drying and leaving split coconuts exposed to the environment instead of being dried immediately. Because of this, the Department of Agriculture (DA) plans to pursue a national copra quality improvement program. Implementation, however, is constrained by budgetary limitations.

Local soybean production has stagnated, and output is expected to remain flat through MY04/05. However, efforts by the private sector to revive the industry are reportedly underway. Late last year, San Miguel Corporation (SMC), the country's largest food and beverage company, announced plans to establish a 500,000 hectare soybean-growing program on several agro-industry zones nationwide. Each zone will have 50,000 hectares of which 20,000 hectares will be allocated to soybean production, 20,000 for corn, and 10,000 for cassava. SMC has 37 feed mills throughout the country and according to media reports, plans to buy the soybeans at a fixed price of P11 (\$0.20) per kilogram. The DA is assisting SMC in the soybean-growing program at the seed production stage.

Because of SMC's initiative, the DA has expressed optimism that the Philippines can be self-sufficient in soybeans in the next two years, after initial yield results in selected areas showed an average yield of 2.7 tons per hectare. Industry contacts, however, believe it will take longer to achieve self-sufficiency, if ever. The original target for commercial production was earlier set for October 2004 but delays in seed production will likely extend commercial planting to 2005 or beyond. Land availability likewise is expected to be a limiting factor.

Consumption, Oilseeds

Traditionally, national copra crush capacity is about double overall copra supply. Copra crush in MY02/03 was raised due to the higher-than-expected copra production during the year. Copra crush in MY03/04, however, was pared down slightly, due to trade measures imposed by the EU on copra meal exports (see OILMEALS, Production). Copra crush during the year, however, will still be higher than its MY02/03 level. For MY04/05, copra crush will further increase from its MY03/04 level as coconut production is expected to continue expanding.

For soybeans, three major crushers, namely; Hui-Shing Philippine Corp. (HSPC), Universal Robina Corp. (URC) and General Milling Corp. (GMC), account for around a 1,700 MT daily crushing capacity on an 8-hour shift basis. This translates to about a 400,000 MT soybean requirement on an annual 230-day single shift operation basis. Total domestic consumption was revised upwards in 2003 due to higher-than-expected supply and is expected to increase through 2005 mainly due to strong feed demand by the local livestock, poultry and aquaculture industries. Positive economic prospects in 2005 coupled with a growing population will translate into increased meat consumption, and therefore feed demand, during the period.

Trade, Oilseeds

Post uses trade data from the UCAP and the National Statistics Office (NSO). According to the NSO, last year, export sales of coconut products, the country's top agricultural export,

rose 34 percent to \$641 million from \$478 million in 2002. Exports of coconut products comprise nearly half of total agro-based exports. Trade data from the NSO, however, are often revised casting doubts about its accuracy. A small amount of copra was imported in MY02/03 from Indonesia according to the NSO. Post utilizes UCAP export data for coconut products. No copra exports are expected through MY04/05.

Appropriate adjustments have been made for soybean imports, consistent with data from the NSO. Bean imports last year were higher than expected while U.S. imports were pared down slightly. In 2003, the U.S. market share of total soybean imports was 49 percent, a decline from the market share of previous years. Beans from Argentina, the second largest supplier, on the other hand, had a 47 percent market share, up from its 20 percent in the previous year.

Total soybean imports in 2004 are likely to decline compared to the 2003 level due to high global prices compounded by the renewed weakness of the Peso. Overall bean imports are expected to increase in 2005, however, as the global supply situation improves. U.S. bean exports to the Philippines are likewise expected to increase although competition from Argentina and Brazil are expected to persist during the period.

For this year, copra imports are levied a 10 percent MFN tariff, unchanged from the previous year's level. Soybeans are subject to a 1 percent MFN duty, the same rate as last year. The Common Effective Preferential Tariff (CEPT) rates under the ASEAN Free Trade Agreement (AFTA), are, in general terms, lower than the MFN rates. Copra imports from ASEAN member countries enjoying tariff concessions under AFTA are levied a 5 percent CEPT duty in 2004 and 2005. Imports of soybeans under the AFTA come in duty-free during both years.

Policy, Oilseeds

The GRP's budgetary limitations will dampen prospects for increased copra production in the long term. In July 2003, the PCA, after providing willing growers free coconut seedlings and seednuts for more than 2 decades, started selling them to maintain its nursery operations and minimize operating losses.

The PCA is also exerting efforts to develop value-added coconut products for the export market. One such product is geotextiles or synthetic permeable textile materials used with soil or rock for anti-desertification and soil erosion applications. The PCA is trying to secure a \$100-million soft loan for the development of around 400,000 hectares of coconut lands to commercially produce geotextiles, coco-peat and other high-value coconut products.

Other coconut products being developed and promoted include virgin coconut oil (VCNO) and coconut methyl esters (CME). More details are provided in the OILS, Policy section.

PSD Table						
Country	Philippines					
Commodity	Oilseed, Copra			(1000 HA)	(1000 TREES)	(1000 MT)
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		10/2002		10/2003		10/2004
Area Planted	3150	3150	3150	3150	0	3150
Area Harvested	2900	2900	2900	2900	0	2900
Trees	283500	283500	283500	283500	0	283500
Beginning Stocks	5	5	5	40	0	80
Production	2050	2200	2300	2300	0	2400
MY Imports	20	15	0	0	0	0
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	2075	2220	2305	2340	0	2480
MY Exports	13	0	13	0	0	0
MY Exp. to the EC	0	0	0	0	0	0
Crush Dom. Consumption	2057	2180	2287	2260	0	2400
Food Use	0	0	0	0	0	0
Feed,Seed,Waste Dm.Cn.	0	0	0	0	0	0
Total Dom. Consumption	2057	2180	2287	2260	0	2400
Ending Stocks	5	40	5	80	0	80
TOTAL DISTRIBUTION	2075	2220	2305	2340	0	2480
Calendar Year Imports	0	15	0	0	0	0
Calendar Yr Imp. U.S.	0	0	0	0	0	0
Calendar Year Exports	0	0	0	0	0	0
Calndr Yr Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Philippines					
Commodity	Oilseed, Soybean				(1000 HA)(1000 MT)	
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		01/2003		01/2004		01/2005
Area Planted	0	0	0	0	0	0
Area Harvested	1	1	1	1	0	1
Beginning Stocks	46	46	38	63	0	30
Production	1	1	1	1	0	1
MY Imports	250	290	300	270	0	310
MY Imp. from U.S.	150	145	175	130	0	160
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	297	337	339	334	0	341
MY Exports	0	0	0	0	0	0
MY Exp. to the EC	0	0	0	0	0	0
Crush Dom. Consumption	227	240	260	265	0	270
Food Use Dom. Consump.	28	30	34	33	0	33
Feed,Seed,Waste Dm.Cn.	4	4	6	6	0	6
TOTAL Dom. Consumption	259	274	300	304	0	309
Ending Stocks	38	63	39	30	0	32
TOTAL DISTRIBUTION	297	337	339	334	0	341
Calendar Year Imports	0	290	0	270	0	310
Calendar Yr Imp. U.S.	0	145	0	130	0	160
Calendar Year Exports	0	0	0	0	0	0
Calndr Yr Exp. to U.S.	0	0	0	0	0	0

Production, Oilmeals

Copra meal production in MY02/03 was slightly raised due to upward adjustments made to copra crush during the period and will likely continue increasing through MY04/05 as copra output increases. Tight global supplies of vegetable oils are expected to enhance higher CNO production in the next two years.

Soybean meal (SBM) production in 2003, on the other hand, was also adjusted upwards consistent with revisions made to soybean crush during the year. Production through 2005 is expected to continue increasing due to strong demand by the domestic livestock, poultry and aquaculture industries.

Fishmeal production will likely remain flat compared to its 2003 level as demand is expected to wane through 2005. Animal and food safety issues surrounding animal proteins have been highlighted by the outbreaks of animal diseases in recent years, and feed nutritionists are now shifting more to vegetable oilmeals for their protein requirements rather than from animal sources.

Consumption, Oilmeals

Feed demand continues to grow in the Philippines with the local hog industry continuing its steady growth. The poultry industry, on the other hand, while also growing, is still hampered by radical production extremes. Occurrences of poultry oversupply and shortages are not uncommon. A fast-emerging feed-consuming sector, which is expected to grow further, is the domestic aquaculture industry. Recent outbreaks of livestock and poultry diseases have caused some shift away from traditional meats to fish. According to the Bureau of Agricultural Statistics (BAS), the local swine and poultry industries last year expanded by 3.98 percent and 1.3 percent, respectively, while the domestic aquaculture industry grew by an impressive 8.69 percent. Aquaculture production in 2003 was the second fastest growing sector of Philippine agriculture.

Anchored on these growing industries is the Philippine feedmilling sector. In 2003, the overall daily rated capacity of registered Philippine feed mills was estimated at 22,000 MT per 8-hour shift. This translates to an annual production capacity of around 4.7 MMT of feeds. Total feed production in 2003, however, is estimated to be in the vicinity of 3.0 MMT. The gap in capacity against actual feed produced leaves plenty of room for expansion and more feedgrain imports. The domestic feed industry is estimated to grow 3 - 5 percent annually through 2005, according to industry sources. More relevant statistical data on feed demand is provided in the Feed Demand Strategic Indicator Table.

Overall domestic copra meal consumption will increase modestly through MY04/05. Copra meal is used in preparing animal feeds, particularly for cattle, including lactating cows as it is said to aid in milk production. Copra meal consumption figures during the 3-year period were adjusted upwards, and appear to be very large as it takes into account spoilage and waste. Trade restrictions on Philippine copra meal by the EU, as a result of high aflatoxin content, will likely result in a significant increase in stock levels which are then vulnerable to spoilage.

SBM consumption in 2003 was raised as a result of higher-than-expected supply due to higher production and imports. SBM demand will increase through 2005 as the domestic feed-consuming sectors continue to expand. These sectors recognize U.S. soybean meal as a premium feed ingredient known for its nutrient content and value. The growing food needs

of the rapidly growing Philippine population and the positive economic projections for 2004 and 2005, are likely to enhance increased SBM consumption.

While dramatic, the growth of the local aquaculture industry did not translate into higher fishmeal consumption in 2003. On the contrary, fishmeal consumption had to be revised downwards. According to industry contacts, because fishmeal is costlier than vegetable oilmeals, animal nutritionists have started to blend SBM with corn gluten meal to substitute for fishmeal. As mentioned earlier, the recent microbial contamination issues surrounding animal proteins and the outbreaks of several animal diseases, such as the BSE, have resulted in this blending practice. This shift to vegetable oilmeals away from animal proteins will likely continue through 2005 and displace a percentage of fishmeal demand. Fishmeal consumption is expected to decline through 2005 because of this.

FEED DEMAND STRATEGIC INDICATOR TABLES FOR PHILIPPINES

MEAT PRODUCTION ('000 MT)

		Last Year	Current Year	Out Year Forecast
Calendar Year:	2002	2003	2004	2005
Poultry				
Poultry Meat:	625	655	684	710
Eggs:	313	326	339	350
Pork:	1,095	1,145	1,175	1210

COMPOUND FEED SECTOR ('000 MT/annually)

		Last Year	Current Year	Out Year Forecast
Calendar Year:	2002	2003	2004	2005
Compound Feed Capacity	4,777	4,727	4,700	4,700
Total Compound Feed Produced	2,951	3,000	3,105	3,190
----- by integrated producers	2,360	2,400	2,485	2,555
----- by commercial producers	591	600	620	635

FEED GRAIN USE ('000 MT)

		Last Year	Current Year	Out Year Forecast
Marketing Year:	2002	2003	2004	2005
Corn (Domestic consumption: feed)	3,150	3,525	3,650	3800
Other (specify)				
Wheat	1,250	1,275	1,375	1600

PROTEIN - ENERGY USAGE
 ('000 MT)

		Last Year	Current Year	Out Year Forecast
Marketing Year:	2002	2003	2004	2005
Total Protein Meal (feed waste domestic consumption)	1,390	1,460	1,557	1,656
Soy Bean Meal (feed waste domestic consumption)	1,284	1,400	1,500	1,600
Other Protein Meal, e.g. Palm Kernel Meal, Rape Meal (feed waste domestic consumption)	10	10	10	10
Fish Meal	96	50	47	46
Palm Crude Oil (feed waste domestic consumption)	0	0	0	0

TRADE (Metric Tonnes)

		Last Year	Current Year	Out Year Forecast
Calendar Year:	2002	2003	2004	2005
Corn				
Imports:	278,400	99,800	300,000	300,000
Exports:	374	1,911	50	50
Soy Beans				
Imports:	257,206	289,220	270,000	310,000
Exports:	0	49	0	0
Soy Bean Meal				
Imports:	1,273,342	1,251,557	1,200,000	1,400,000
Exports:	0	132	120	150
Fish Meal				
Imports:	72,367	44,749	38,000	33,000
Exports:	2,530	384	400	500
Palm Crude Oil				
Imports:	20	20	18	20
Exports:	7	32,258	30,000	30,000

PROTEIN PRODUCTS TARIFFS AND TAXES

Report Year: 2004	Product Description 1/	Bound Rate (%)	Applied Rate (%)	Other Import Taxes/Fees
0505.90	FEATHER MEAL	40	3	N/A

1501.00.00.60	YELLOW GREASE	40	3	N/A
1502.00.00.40	INEDIBLE TALLOW	15	3	N/A
1511	PALM OIL	50	15	N/A
1518	ANML/VG FTS & OILS	30	3	N/A
2301.10	MEAT AND BONE MEAL	N/A	1	N/A
2301.20	FISH MEAL	N/A	1	N/A

Trade, Oilmeals

Copra meal exports in MY02/03 were revised downwards based on data from the UCAP, and is the result of increased trade restrictions imposed on copra meal by the EU. Last year, the EU reduced the maximum limit on aflatoxin content in copra meal from 200 parts per billion (ppb) to 20 ppb. This ruling disallowed Philippine copra meal exports to the EU. The EU regulation is based on concerns that if the contaminated copra meal is used as a feed ingredient for dairy animals, the aflatoxin carcinogen could be transmitted to infant milk. Europe is a traditional market for Philippine copra meal and pays a premium for the product. Other markets include Vietnam, Korea and New Zealand. Overall Philippine MY02/03 copra meal exports would have been much lower had it not been for an increase in imports by Japan and Korea. The trade restrictions will likely result in flat copra meal exports through MY04/05 although the GRP will pursue negotiations with the EU to soften the impact of the trade constraint.

SBM meal imports, on the other hand, were adjusted upwards in 2003 based on NSO data. Despite possible duty-free imports of SBM, imports in 2004 are expected to decline slightly from the 2003 level due to high soybean prices and the renewed weakness of the Peso. SBM imports in 2005, however, will likely recover, and the U.S. market share is expected to improve from the 2003 level.

For fishmeal, imports in 2003 were revised downwards consistent with data from the NSO. The decline marked the start of the shift away from animal protein meals to vegetable oil meals by the domestic aquafeed manufacturers due to reasons stated in the OILMEALS, Consumption Section. Peru was the top fish meal supplier to the Philippines in 2003 with a 42 percent market share followed by the United States with a 31 percent share of the market. Fishmeal imports are expected to decline through 2005 compared to the 2003 level as the practice becomes more widespread.

Soybean meal MFN tariffs will be set at 3 percent in 2005, unchanged from the 2004 level. CEPT duties, on the other hand, will be at zero for both years except for those originating from Cambodia, which do not enjoy any tariff concessions. The same MFN and CEPT rates (3 percent and duty-free rate, respectively) apply to copra meal in 2004 and 2005. MFN duties for fishmeal imports will be set at 1 percent through 2005 while CEPT rates are duty-free for the same period, except for those originating from Burma and Cambodia.

Policy, Oilmeals

In response to escalating prices of pork and poultry meat in late 2003, President Gloria Macapagal Arroyo signed Executive Orders 299 (EO 299) and 300 (EO 300) allowing the importation of 10,000 metric tons (MT) of pork at 10 percent tariff and the duty-free importation of soybean meal for six months, respectively. EO 299 was signed on March 26, 2004 while EO 300 was signed on March 29 this year. EO 300 took effect May 2, 2004.

PSD Table						
Country	Philippines					
Commodity	Meal, Copra					
					(1000 MT)	(PERCENT)
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		10/2002		10/2003		10/2004
Crush	2057	2180	2287	2260	0	2400
Extr. Rate, 999.9999	0.324745	0.321101	0.32488	0.328761	0	0.320833
Beginning Stocks	140	140	93	110	0	103
Production	668	700	743	743	0	770
MY Imports	0	0	0	0	0	0
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	808	840	836	853	0	873
MY Exports	450	450	460	450	0	450
MY Exp. to the EC	190	42	200	42	0	42
Industrial Dom. Consum	0	0	0	0	0	0
Food Use Dom. Consump.	0	0	0	0	0	0
Feed Waste Dom. Consum	265	280	280	300	0	320
TOTAL Dom. Consumption	265	280	280	300	0	320
Ending Stocks	93	110	96	103	0	103
TOTAL DISTRIBUTION	808	840	836	853	0	873
Calendar Year Imports	0	0	0	0	0	0
Calendar Yr Imp. U.S.	0	0	0	0	0	0
Calendar Year Exports	0	450	0	450	0	450
Calndr Yr Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Philippines					
Commodity	Meal, Soybean					
					(1000 MT)	(PERCENT)
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		01/2003		01/2004		01/2005
Crush	227	240	260	265	0	270
Extr. Rate, 999.9999	0.797357	0.791667	0.796154	0.792453	0	0.788889
Beginning Stocks	82	82	79	122	0	32
Production	181	190	207	210	0	213
MY Imports	1100	1250	1200	1200	0	1400
MY Imp. from U.S.	300	310	650	300	0	450
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	1363	1522	1486	1532	0	1645
MY Exports	0	0	0	0	0	0
MY Exp. to the EC	0	0	0	0	0	0
Industrial Dom. Consum	0	0	0	0	0	0
Food Use Dom. Consump.	0	0	0	0	0	0
Feed Waste Dom. Consum	1284	1400	1406	1500	0	1600
TOTAL Dom. Consumption	1284	1400	1406	1500	0	1600
Ending Stocks	79	122	80	32	0	45
TOTAL DISTRIBUTION	1363	1522	1486	1532	0	1645
Calendar Year Imports	0	1250	0	1200	0	1400
Calendar Yr Imp. U.S.	0	310	0	300	0	450
Calendar Year Exports	0	0	0	0	0	0
Calndr Yr Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Philippines					
Commodity	Meal, Fish					
	(1000 MT)(PERCENT)					
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		01/2003		01/2004		01/2005
Catch For Reduction	0	0	0	0	0	0
Extr. Rate, 999.9999	0	0	0	0	0	0
Beginning Stocks	3	3	3	7	0	9
Production	11	11	11	11	0	11
MY Imports	85	43	85	38	0	33
MY Imp. from U.S.	0	13	0	12	0	5
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	99	57	99	56	0	53
MY Exports	0	0	0	0	0	0
MY Exp. to the EC	0	0	0	0	0	0
Industrial Dom. Consum	0	0	0	0	0	0
Food Use Dom. Consump.	0	0	0	0	0	0
Feed Waste Dom. Consum	96	50	96	47	0	46
TOTAL Dom. Consumption	96	50	96	47	0	46
Ending Stocks	3	7	3	9	0	7
TOTAL DISTRIBUTION	99	57	99	56	0	53
Calendar Year Imports	0	43	0	38	0	33
Calendar Yr Imp. U.S.	0	13	0	12	0	5
Calendar Year Exports	0	0	0	0	0	0
Calndr Yr Exp. to U.S.	0	0	0	0	0	0

Production, Oils

As mentioned in the OILSEED, Consumption section, total national crush capacity is roughly twice the traditional copra supply. Nationwide, there are approximately 71 copra crush facilities that extract crude CNO from copra. A portion of the extracted crude CNO is further processed into the more refined CNO. Some of these crush facilities also function as refineries. The majority of both types of plants are located in the southern portion of the main island of Luzon. Philippine CNO production is expected to increase through MY04/05 due to the expected strong demand for CNO in light of tight global vegoil supplies.

However, like copra meal, CNO quality standard issues, specifically those concerning the polycyclic aromatic hydrocarbon (PaH) content of CNO, may affect production and consequently threaten CNO trade (see OILS, Trade). PaH is a contamination from smoke due to incomplete fuel combustion during kiln-drying. It is considered a carcinogenic organic compound.

Soybean oil production in 2003 was slightly raised due to similar adjustments made to soybean crush. Production in 2004 will likely increase from the 2003 level as imports initially decline, recovering in 2005 as global soybean supply normalizes and prices stabilize.

Consumption, Oils

Last year, the National Economic and Development Authority (NEDA) reported that Philippine GNP grew 5.5 percent from the previous year's level, buoyed by strong dollar remittances from overseas Filipino workers (OFWs). GDP, on the other hand, expanded by 4.5 percent last year from 2002, falling within the government's official forecast of 4.2-5.2 percent. In 2003, the agriculture sector recorded a 3.77-percent growth rate.

NEDA expects the domestic economy this year to grow 4.9 percent to 5.8 percent. The projected economic performance is expected to be driven by electronics and agricultural exports, as well as strong personal consumption. NEDA also projects inflation at 4-5 percent, an exchange rate of P54-P56 against the dollar and a 10 percent growth in overall exports.

Local consumption of CNO in MY03/04 is expected to increase from the MY02/03 level as a result of the expected positive growth in the economy. The majority of locally-consumed CNO is used as cooking oil, and the growing food needs of the rapidly expanding Philippine population support increased domestic consumption of CNO. High prices of soybean oil and palm oil are also likely to enhance more domestic use of CNO. CNO is also used as a material in the manufacture of margarine, shortening, soaps, oleochemicals for detergent, etc. Increasing CNO consumption is expected to extend to MY04/05, in line with the projections for continued economic growth.

Consumption of soybean oil in 2003 was slightly raised due to higher-than-expected supply but will likely decline in 2004 as a result of high soybean and palm oil prices. Soybean oil consumption will grow marginally the following year as prices stabilize and the Philippine economy further improves in 2005.

Trade, Oils

Philippine CNO is the consistent top agro-based product exported by the country. According to preliminary data from the NSO, total CNO exports in 2003 were valued at \$505 million, 80 percent of which came from crude CNO export sales. The EU was the Philippines'

largest market for crude CNO last year, followed by the United States, Malaysia and China. For refined CNO, the majority of exports went to the United States, followed by Japan, the Netherlands and Malaysia. On a market-year basis, CNO exports in MY02/03 were raised slightly based on UCAP data. The EU and the United States were the top two destinations during the period with market shares of 42 percent and 31 percent, respectively.

The Codex Alimentarius Commission (CAC) reportedly is ready to impose new standards on CNO this year that will dampen CNO exports in MY03/04. The CAC is expected to cut the maximum allowable PaH level in response to the EU's request for CAC to establish the appropriate CNO standards. The PaH level of CNO is around 47 ppb while other vegetable oils range from only 2 ppb to 12 ppb. Tight global supplies of soybean and palm oil, coupled with the reported dwindling CNO stocks in Europe, however, will likely result in the delay in implementation of the new standards. This seems to be supported by the recent inclusion of the Philippines under the list of countries under the EU's Generalized System of Preferences (GSP) which makes Philippine CNO subject to lower tariffs (see OILS, Policy). This, plus China's reported interest in augmenting its edible oil supply with Philippine CNO will likely result in increased CNO exports through MY04/05.

Soybean oil imports in 2003, on the other hand, were slightly raised but expected to decline in 2004 due to weakening demand and adequate CNO supply. Imports, however, are expected to recover and increase slightly the following year as the global supply improves and the Philippine economy expands.

MFN Tariffs on CNO in 2005 remain unchanged from the previous year's level at 10 percent while CEPT duties have been established at 5 percent in 2005, up from 3 percent the year before. The CEPT rates, however, do not apply to CNO imports from Cambodia. Soybean oil, on the other hand, is levied a 7 percent MFN duty in 2004 and 2005 but under the AFTA, a 3 percent tariff will be applicable during both years.

Policy, Oils

Under the EU's GSP, starting January 2005, the Philippines will be allowed to export crude CNO to the EU duty-free. In addition, the Philippines will be able to export refined coconut oil to the EU at a reduced tariff rate of 6.1 percent, 3.5 percentage points lower than the 9.6 percent tariff it imposes on vegetable oil suppliers under the MFN scheme.

On February 9, 2004, President Gloria Macapagal-Arroyo signed Memorandum Circular No. 55 (MC 55) directing all GRP departments, bureaus, offices and instrumentalities of the government to incorporate the use of one percent by volume, coconut methyl ester (CME) in their diesel requirements. MC 55 aims to create a new market for coconut farmers and at the same time promote the GRP's desire for cleaner air. The lead agency tasked to implement the CME program is the Department of Energy (DOE). More details may be found in GAIN RP4019.

Republic Act 8976 (RA 8976) or the Philippine Food Fortification Law of 2000, requires that all staple foods - rice, sugar, flour, salt and cooking oil - be fortified with Vitamin A, iron or iodine. RA 8976 is to be fully implemented on Nov. 7, 2005. The law applies to all manufacturers or producers, importers, traders, tollees, retailers, repackers of staple foods, as well as restaurants and food service establishments where such fortified food products are likely to be served. Post believes these sectors are not yet equipped with the adequate technology and infrastructure to implement the law and expect that the implementation date of RA 8976 may be deferred.

A new coconut product being promoted, and for which demand in the foreign and local markets is increasing, is virgin coconut oil (VCNO). It is said to be renowned for its health and medicinal benefits. Premium grade VCNO is oil derived from first press of fresh, choice and mature coconut meat. It does not undergo any heat treatment, unlike conventional CNO. Because of this, it is claimed that all the vitamins, nutrients, anti-oxidants, and other substances beneficial to human health, are not dissipated with heat.

PSD Table						
Country	Philippines					
Commodity	Oil, Coconut				(1000 MT)(PERCENT)	
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		10/2002		10/2003		10/2004
Crush	2057	2180	2287	2260	0	2400
Extr. Rate, 999.9999	0.629558	0.623853	0.629646	0.623894	0	0.625
Beginning Stocks	20	20	16	16	0	60
Production	1295	1360	1440	1410	0	1500
MY Imports	0	0	0	0	0	0
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	1315	1380	1456	1426	0	1560
MY Exports	1015	1080	1150	1070	0	1200
MY Exp. to the EC	214	462	265	440	0	490
Industrial Dom. Consum	88	88	89	90	0	92
Food Use Dom. Consump.	187	187	187	195	0	205
Feed Waste Dom. Consum	9	9	9	11	0	13
TOTAL Dom. Consumption	284	284	285	296	0	310
Ending Stocks	16	16	21	60	0	50
TOTAL DISTRIBUTION	1315	1380	1456	1426	0	1560
Calendar Year Imports	0	0	0	0	0	0
Calendar Yr Imp. U.S.	0	0	0	0	0	0
Calendar Year Exports	0	1185	0	1150	0	1045
Calndr Yr Exp. to U.S.	0	375	0	450	0	420

PSD Table						
Country	Philippines					
Commodity	Oil, Soybean				(1000 MT)(PERCENT)	
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		01/2003		01/2004		01/2005
Crush	227	240	260	265	0	270
Extr. Rate, 999.9999	0.176211	0.175	0.176923	0.173585	0	0.174074
Beginning Stocks	8	8	2	5	0	7
Production	40	42	46	46	0	47
MY Imports	10	15	20	13	0	15
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	58	65	68	64	0	69
MY Exports	0	0	0	0	0	0
MY Exp. to the EC	0	0	0	0	0	0
Industrial Dom. Consum	8	8	8	8	0	8
Food Use Dom. Consump.	48	52	57	49	0	55
Feed Waste Dom. Consum	0	0	0	0	0	0
TOTAL Dom. Consumption	56	60	65	57	0	63
Ending Stocks	2	5	3	7	0	6
TOTAL DISTRIBUTION	58	65	68	64	0	69
Calendar Year Imports	0	15	0	13	0	15
Calendar Yr Imp. U.S.	0	0	0	0	0	0
Calendar Year Exports	0	0	0	0	0	0
Calndr Yr Exp. to U.S.	0	0	0	0	0	0